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INTERNAL OVERSIGHT

INTERNAL AUDIT AND OVERSIGHT ACTIVITIES

Report of the Administrator

SUMMARY

The present report is submitted pursuant to the arrangements agreed upon by the Executive Board. The report provides details of internal audit and oversight services provided by the UNDP Office of Audit and Performance Review for the year ended 31 December 1998.

A recommendation for Executive Board action is contained in chapter VII.

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I. INTRODUCTION

1. The Administrator is pleased to provide the Executive Board with the third annual report on internal audit and oversight services provided by the UNDP Office of Audit and Performance Review (OAPR) for the year ended 31 December 1998.

2. In addition to those provided to UNDP, OAPR also provides internal audit and oversight services to the United Nations Office for Project Services (UNOPS) and to the United Nations Population Fund (UNFPA). Sections of the report relating to the accountability framework; organization and resources; and quality service initiatives apply equally to all three organizations. However, detailed discussions of the internal audit and oversight activities carried out on behalf of UNOPS and UNFPA are included as separate reports, which are being submitted to the Executive Board at its present session by the Executive Director, UNOPS (DP/1999/24), and the Executive Director, UNFPA (DP/FPA/1999).

II. ACCOUNTABILITY FRAMEWORK

3. The Administrator is fully committed to establishing and implementing an improved culture of accountability in the organization, which will help to ensure that UNDP business is carried out economically, efficiently and effectively. Moreover, such a culture will ensure that managers apply and conscientiously follow best management standards and that staff at all levels are held accountable for their performance and resource utilization.

4. In order to nurture and achieve a new level of accountability, UNDP, as discussed in Executive Board document DP/1996/35, proposed a new accountability framework, which was supported by the Board in its decision 96/36. OAPR was assigned responsibility for coordinating the implementation and oversight of the accountability framework.

5. With funding assistance from members of the Executive Board, phase I of the implementation of the accountability framework began in 1998, through a process of control self-assessment (CSA). By the end of 1998, 12 UNDP staff members had been trained as facilitators and 12 CSA sessions had been conducted in five organizational units at headquarters, including a regional bureau.

6. Although some delays are expected owing to the priority of implementing the new results-based management system in UNDP, implementation of CSA phase I in country offices will begin during the first half of 1999. CSA is also being incorporated by OAPR into the 1999 management audits of country offices.

7. The Management Review and Oversight Committee (MROC) was established by the Administrator in 1996 to provide advice and oversight on internal audit, investigations, evaluation and other matters relating to accountability. Chaired by the Associate Administrator, its membership includes the Under-Secretary-General of the Office for Internal Oversight Services (OIOS) and senior UNDP managers. OAPR acts as secretariat for the Committee, which met twice during 1998.

III. ORGANIZATION AND RESOURCES

8. At headquarters, OAPR is organized into the Office of the Director and five Sections: Internal Audit Services; Management Review and Analysis Services; National Execution Audit Services; UNFPA Audit Services; and UNOPS Audit Services. In addition, OAPR has three regional audit service centres (RASCs), including the centre in Panama, which was established at the end of 1998. A fourth RASC is planned for the end of 1999. As at 31 December 1998, OAPR had 43 authorized posts (see table 1 below).

Table 1. Authorized posts as at 31 December 1998

	Total	Director	Chiefs	Auditors	Audit Assistants	Support
Office of the Director	3	1				2
Internal Audit Section	7		1	5		1
Management Review and Analysis Section	5		1	1	3	
National Execution and Audit Section	5		1	2	2	
Regional Audit Service Centre - Malaysia	3		1	2		
Regional Audit Service Centre - Zimbabwe	6		1	3	1	1
Regional Audit Service Centre - Panama	4		1	2		1
	33	1	6	15	6	5
UNFPA Audit Section	3		1	1		1
UNOPS Audit Section	7		1	4	1	1
	43	1	8	20	7	7

9. Thirteen authorized posts were vacant at the end of the year. However, staffing actions were initiated and by early 1999, individuals had been identified to fill seven of the vacant posts.

10. In addition to internal staff resources, OAPR contracted with public accounting firms to conduct audits of country office operations in the Africa, Asia and the Pacific and Arab States regions. With the opening of the RASC in Panama, this approach is being extended to offices in the Latin America and the Caribbean region in 1999. By the beginning of the year 2000, a regime will be in place to provide for contracted audits of country offices every two years.

IV. QUALITY SERVICE INITIATIVES

11. In order to enhance the quality of its service and practices, OAPR continued the programme of quality service initiatives (QSI). Through the QSI exercise, which stresses client and stakeholder satisfaction as well as employee involvement and innovation, OAPR seeks to become: for clients, an instrument of learning as well as control and oversight; and for stakeholders, an instrument for improved performance and accountability. The work plans of the QSI teams supported the Director's compact with the Administrator and outputs from the process included revised administrative processes and responsibilities and several new guidelines for professional practices. OAPR also implemented new delegated authorities for reporting and related communications, budget and expenditure control, and procurement.

12. At the end of the year, OAPR engaged consultants to carry out a quality assurance review of its operations and to assist in the development of a competency-based learning, training and development framework to guide the selection and development of staff. Reports on these two initiatives are due at the end of the first quarter of 1999.

V. INTERNAL AUDIT AND OVERSIGHT SERVICES

A. General

13. The information in table 2, summarizes the output of OAPR for the year. OAPR issued 189 audit, investigation and related reports during 1998. Of particular interest were joint and/or supportive engagements carried out with OIOS and the internal audit group of the United Nations Children's Fund (UNICEF). In addition, the results of 764 national execution audit reports were evaluated and feedback was provided to country offices.

Table 2. Internal audit and oversight services provided in 1998

	In process (01/01/98)	Projects initiated	Reports issued	In process (31/12/98)
UNDP - Control self-assessment (CSA) sessions		12	12	
UNDP - Internal audits and reviews	57	50	94	13
UNDP - National execution audits and reviews	3	10	6	7
UNDP - Analysis of national execution reports		764	764	
UNFPA - Internal audits and reviews	29	24	47	6
UNOPS - Internal audits and reviews	4	28	28	4
	93	888	951	30
Special audits and investigation cases	12	33	14	31
	105	921	965	61

B. Internal audits

14. During 1998, OAPR provided internal audit and related services to 45 of the 134 country offices and five headquarters or functional units. A total of 94 internal audit reports were issued, which contained 2,122 recommendations. Of these 2,122 recommendations, 1,944 (91 per cent) were accepted by auditees and have been or are being implemented. The remaining 178 recommendations (9 per cent) are being followed up on. The distribution of recommendations by function is as follows:

Organizational and financial operations	504
Programme matters	548
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15. Of the 94 internal audit reports issued in 1998, most were for audits of country offices in the regions of Africa, Asia/Pacific and Arab States. A list of the recurring issues identified in these reports as well as OAPRs recommendations for corrective action is provided below. For all of these issues, the Administrator has noted the recommendations of OAPR and has instructed the appropriate units to follow-up to ensure that action is taken.

Organizational and financial operations

16. Amounts recoverable locally (ARL). Internal audits observed instances where the ARL accounts had not been reviewed and cleared on a timely basis. Some instances of a lack of compliance with UNDP procedures for the approval of ARLs were also noted. The lack of timely review and clearance creates long-outstanding balances which could prove difficult to collect. OAPR has recommended that resident representatives ensure that ARL accounts are reviewed on a regular basis and that vigorous follow-up and collection action is initiated.

17. Emergency advances. UNDP procedures permit country offices to authorize emergency advances to staff members in the event of a genuine emergency that meets certain criteria. Several audits observed situations where emergency advances were given for household repairs or other routine expenses that do not comply with UNDP policies. There were also instances of recurring and/or back-to-back advances to staff members. Although individual amounts are not large, advances represent a loss of interest income to UNDP and therefore need to be monitored and controlled. OAPR has recommended that resident representatives ensure that all advances comply with UNDP policies and that they carry out and maintain a detailed analysis of accessibility of staff to local credit facilities.

18. Cash management. Internal audits identified issues concerning the custody and management of petty cash funds, such as lack of appropriate supporting documentation for petty cash disbursements. Typically, petty cash balances are small - approximately $300 to $500. For those country offices in crisis

situations, however, where the local banking infrastructure is inadequate, there is extensive use of cash for local procurement. Accordingly, where cash balances are significant, OAPR has recommended that resident representatives carry out periodic reviews of petty cash procedures, transactions and replenishments and ensure that UNDP policies are complied with.

19. Government contributions. As was the case in previous years, government contributions towards local office costs of country offices remained unpaid in a number of countries in 1998. This has implications for the UNDP cash management and programme planning process. Pursuant to paragraph 3 of Executive Board decision 97/24, these amounts may be deducted from funds allocated for programmes in the affected countries concerned. OAPR has recommended that the respective resident representatives follow-up vigorously with the Governments to ensure timely payments of the agreed amounts.

Programme matters

20. Programme resources. Internal audits noted instances, in six country offices, of incorrect utilization of programme resources for operational requirements. These included using personnel recruited under project funds to perform regular office functions and purchasing equipment used by office staff. In almost all cases, however, the individuals and the equipment were supporting project activities and, as noted by the county offices concerned, the line between core functions, which should be supported by administrative budgets, and project functions is not always clear. The Administrator has requested OAPR to conduct further reviews in 1999 to determine the scope and extent of this issue and to work with the Bureau of Planning and Resources Management (BPRM) to implement recommendations. Furthermore, UNDP anticipates that the new strategic results framework, with its tight linkages between the use of resources and results, will help to address this problem.

21. Programme monitoring. A number of internal audits revealed a lack of compliance with certain UNDP procedures for monitoring projects. These included lack of documentation of project visits, project performance evaluation reports were not prepared, and tripartite review meetings were not held. OAPR notes that certain country offices are of the opinion that other mechanisms employed by them are adequate to achieve the same monitoring objectives. Accordingly, in 1999 OAPR will liaise with the Operations Support Group to review the scope provided in UNDP manuals for country offices to tailor the monitoring tools to their specific situation.

22. Programme reporting under national execution. Instances of government delivery reports (GDRs) and reconciliations of advances (ROAs) not being submitted on a timely basis were noted. Not only does this problem have implications for the timely recording of expenditures, it may also lead to the late completion of national execution audits. A major contributing factor to this problem was the somewhat complex UNDP reporting requirements for national execution. These reporting requirements have been considerably simplified, however, in the revised national execution procedures that were issued in March 1998. These new procedures require a single financial report, four times a year, which combines the previously required GDR, ROA, and request for advances reports.

23. Completed projects. Internal audits noted problems with the timely designation of projects as operationally complete and also as financially complete. There are a variety of reasons for this, including lack of clarity as to when a project should be considered operationally complete and difficulty in getting executing agents to submit final expenditures. The new Programming Manual, due to be issued in the first half of 1999, addresses these problems by providing specific criteria for operational and financial completion and by requiring resident representatives to close projects if the executing agency fails to do so on a timely basis. Furthermore, the implementation of the SRF and results-based management will encourage country offices to improve the timely designation of projects as operationally and financially complete.

General administration

24. Procurement of goods and services. Internal audits identified issues concerning the procurement practices and procedures followed by some country offices. The most notable is lack of segregation of duties, which increases the risk of non-competitive procurement. Also, audit testing of procurement transactions revealed instances of lack of compliance with UNDP policies and procedures, including lack of competitive quotations, procurement in excess of delegated authorities, and lack of sufficient supporting documentation. OAPR has recommended additional training for staff involved in procurement activities and improved segregation of duties. Several of the issues identified, specifically those concerning segregation of duties and procurement in excess of delegated authorities, are being addressed by the Bureau for Finance and Administrative Services (BFAS) in 1999 in conjunction with the revisions being made to the Financial Rules and Regulations and the new procurement guidelines.

25. Field office inventory system (FOINVENT). As noted in previous years, internal audits continued to find errors in the recording of items, lack of physical inventories, and lack of reconciliation between country office records and those maintained by headquarters. Assets are expensed in UNDP accounting records as they are acquired. Accordingly, the inventory system is the only means to keep track of significant assets and facilitate control over them. OAPR has recommended that country offices increase their efforts to improve the control and accuracy of inventory records, including reconciliation with headquarters units. In addition, OAPR will liaise closely with BFAS in 1999 to analyse this issue and to recommend appropriate global solutions.

Personnel administration

26. Special service agreements (SSAs). Internal audits noted many instances of non-compliance with the UNDP policy for SSAs. These included lack of an appropriate competitive recruitment process, lack of performance evaluations and lack of compliance with the duration limits. In some country offices, individuals contracted under SSAs were observed to be carrying out long-term or permanent functions, rather than temporary functions, as intended under the SSA modality. OAPR has recommended that country offices comply with UNDP SSA policies or obtain approval for deviations from the Office of Human Resources (OHR). The Administrator notes that new directives recently issued by OHR provide country offices with additional staffing tools; specifically service contracts and contracts for activities of limited duration. The Administrator's

view is that the introduction of these new tools will significantly reduce instances of non-compliance.

Office automation

27. Financial information management system (FIMS). FIMS was officially released to country offices in late 1997. Internal audits conducted in 1998 observed that some country offices were only partially using FIMS and some not at all. The reasons given by country offices include problems with the FIMS software and lack of sufficient training. This is a major UNDP corporate system and its use by all offices is important to ensure consistent information. OAPR has recommended that country offices ensure the implementation and use of FIMS and obtain required training, as necessary. The Administrator notes that the regional bureaux and BFAS have recently taken strong measures to promote increased usage by country offices and that significant improvements in the usage rates are expected over the next few months. BFAS closely monitors, by region, the number of country offices which have installed FIMS, have tested FIMS, and are using it in production.

28. Integrated management information system (IMIS). During the year, OAPR worked with UNDP management to review the controls relating to three IMIS releases: release 2 - entitlements; release 3 - finance; and release 4 - payroll. Findings were shared directly with project managers and corrective action was initiated where necessary. The only release not yet implemented is release 4 - payroll, which is expected to be implemented before the end of 1999. In 1998, OAPR expressed concerns with respect to the integrity of the personnel information contained in releases 1 and 2. OAPR work in this area will be ongoing in 1999, as part of the audit of human resource management.

29. Data security and control. Internal audits of country offices noted instances of lack of use of passwords or formal disaster-recovery plans and back-up procedures. The absence of these practices increases the risk that information could be lost or accessed by unauthorized individuals. OAPR has recommended that country offices ensure that staff are aware of the importance of safeguarding against the loss of information or unauthorized access to it. OAPR will meet with BFAS in 1999 to discuss options for providing guidance to country offices in this area.

30. Year 2000. During 1998, OAPR noted that BFAS is actively addressing year 2000 issues at headquarters. However, internal audits of country offices revealed that some of them have equipment that may not be year-2000 compliant. Furthermore, these country offices have not set up local task forces and are relying upon headquarters to deal with the issues. OAPR has recommended that the country offices affected seek guidance from headquarters to ensure that their year 2000 issues are appropriately dealt with. The Administrator notes that BFAS has recently sent to all country offices a comprehensive set of software fixes and guidance on how to deal with year 2000 issues. In addition, the Executive Committee has instituted a monthly standing item on its agenda to monitor UNDP contingency planning for year 2000 issues.

C. National execution

31. UNDP Financial Regulation 17.2 requires Governments to submit audited financial reports for nationally executed projects and programmes. Over the years, OAPR has been collaborating with the United Nations External Board of Auditors to increase the extent of audit coverage for national execution projects and programmes with a view to eliminating the qualification of UNDP financial statements.

32. However, owing to a number of factors, it is unlikely that sufficient audit assurance can be achieved within the deadlines established by the Board of Auditors. In 1998, a total of 1,315 reports were received from 96 countries. This represented audit expenditure of approximately $700 million out of a total recorded expenditure of $1.2 billion (58 per cent).

33. Of the 1,315 reports received, 764 were evaluated and findings reported to the country offices concerned. OAPR also prepared a report for the Administrator summarizing the issues and deficiencies disclosed in the audit reports. This report was distributed to a number of UNDP units, including the Bureau for Planning and Resource Management (BPRM), BFAS, and OSG, for their information and consideration in revising UNDP policies and procedures.

34. During 1998, a total of 10 national execution audit/review missions were carried out and a total of six reports issued by the end of the year. Most of the issues that arose from these audit/review missions were similar to those of previous years. They included:

(a) Capacity assessment by country offices not undertaken consistently before engaging in the national execution modality;

(b) Lack of and/or unclear instructions on UNDP policies and procedures;

(c) Failure to familiarize all parties concerned, at an early stage, with the national execution requirements for financial reports and for monitoring and evaluation reports;

(d) Delayed delivery by UNDP of year-end financial statements;

(e) Failure to transfer UNDP staff expertise to project management and insufficient financial and management oversight of project operations by some country offices; and

(f) Implementation of projects by autonomous institutions that are not included in the chain of accountability established by the programme country Governments.

35. In accordance with the Administrator's instructions, UNDP has addressed these issues in the course of the preparation, development, and implementation of the revised guidelines on national execution, as well as in the development of the new Programming Manual, due to be issued during the first half of 1999 As part of the preparation of the revised guidelines on national execution, validation workshops were conducted with a number of country offices. As part

of the development, efforts were made to simplify reporting requirements. For example, pursuant to the new guidelines, a single financial report is required each quarter and a single programme progress report is required, at a minimum, each year. As part of the implementation, country offices conducted local training sessions and OSG recently issued comprehensive computer-based training packages to help country offices to manage national execution. Additional country office workshop training is planned for 1999.

36. In 1999, OAPR will follow-up the impact of the above measures through discussions with personnel in country offices, government officials, auditors and project managers.

D. Special audits and investigation cases

37. In all, 33 new cases were initiated during 1998. The issues ranged from allegations of fraud and serious misconduct to inadequate performance and potential conflicts of interest.

38. There were 31 special audits and investigation cases that were active at the end of the year. This represents an increase of 19 (158 per cent) over the volume for 1998.

39. Several cases are being dealt with in cooperation with OIOS, including that of the Reserve for Field Accommodation, a case that now involves legal action against two individuals.

VI. RECOMMENDATIONS BY THE JOINT INSPECTION UNIT FOR MORE COHERENCE FOR ENHANCED OVERSIGHT IN THE UNITED NATIONS SYSTEM

40. On 7 August 1998, the Joint Inspection Unit (JIU) issued a report entitled "More Coherence for Enhanced Oversight in the United Nations System" (JIU/REP/98/2-A/53/171). The report contains six recommendations, which are reproduced below, together with the comments of UNDP.

41. Agreed plans for conducting internal oversight

> Legislative organs should request the Executive Head of each organization to submit, for approval, an optimal plan for conducting and coordinating all elements of internal oversight, appropriate to the characteristics of his/her organization, and an indication of the related personnel and financial requirements.

UNDP agrees with this recommendation and reminds members of the Executive Board that the Management Review and Oversight Committee is the mechanism by which UNDP coordinates the plans and oversight activities of OAPR and the Evaluation Office. The related personnel and financial requirements will be highlighted during the biennial budget submission.

42. Reporting on internal oversight activities

(a) Legislative organs should request Executive Heads of each organization to submit a consolidated annual summary report on internal oversight activities that concisely provides (i) an overview of the issues addressed and accomplishments achieved; (ii) a record of recommendations made and status of actions taken on them; and (iii) issues or recommendations requiring action by Executive Heads or legislative organs.

(b) Legislative organs should decide whether Executive Heads will (i) take responsibility for reports on internal oversight activities or (ii) make such reports available to legislative organs as prepared by the internal oversight mechanisms, together with any separate comments the Executive Heads may deem appropriate.

(c) Any report of internal oversight mechanisms to a legislative organ should indicate which recommendations the Executive Head believes are for information purposes only and which the Executive Head believes require action by an appropriate legislative organ.

In general, UNDP agrees with the contents and thrust of this recommendation. Currently, separate annual reports are prepared for the internal audit and oversight activities of OAPR and the evaluation and monitoring activities of the Evaluation Office. However, OAPR issues between 1,000 and 3,000 recommendations each year. As a result, it would not be practical or cost-effective to list individual recommendations in the annual report. Instead, UNDP suggests that the current practice of highlighting issues or concerns that have organization-wide implications be continued. Although the reports are prepared by the units responsible, UNDP believes that the reports should be from the Administrator to the Executive Board. The reports currently indicate what action is requested from the Executive Board.

43. Highlighting good practices

United Nations system internal and external oversight mechanisms should include in their reports to legislative organs a description of good practices identified in the course of their work that other units in the same organization and/or other organizations could find beneficial.

UNDP agrees with this recommendation. Currently, the Evaluation Office includes information on good practices and innovations in programme delivery in its report. The Office of Audit and Performance Review has done this infrequently in the past; however, it is now improving its practices in this area and will report on them in due course to the Executive Board.

44. JIU analyses of consolidated annual summary reports on internal oversight activities

Based on its system-wide mandate, the Joint Inspection Unit (JIU) should include in its programme of work, periodically, an overall

analysis of the consolidated annual summary reports on internal oversight, as called for in recommendation 2, for the purpose of identifying system-wide issues and problems, as well as good practices that other organizations of the system could find beneficial.

UNDP supports this recommendation and looks forward to sharing and receiving information from other members of the United Nations system.

45. Fostering a stronger professional oversight community

United Nations system oversight mechanisms, building on current associations, should seek to establish a more active community for encouraging further networking, information sharing, and professional development.

UNDP agrees with this recommendation. Both of the UNDP oversight units (OAPR and the Evaluation Office) take leadership roles and collaborate actively with other members of the United Nations system.

46. More dialogue among oversight partners

Within the context of shared responsibility for oversight, the oversight mechanisms should seek opportunities to enhance dialogue with representatives of Member States and Secretariats, as needed, in order to be more responsive to concerns about oversight, to foster the role of oversight in the change and reform process, and to assure a fuller understanding of the comparative roles of the different oversight mechanisms.

UNDP agrees with this recommendation. The Directors of OAPR and the Evaluation Office have frequently made themselves available to members of the Executive Board and welcome additional opportunities to do so in the future.

VII. EXECUTIVE BOARD ACTION

47. The Executive Board may wish to:

1. Take note of the report of the Administrator on internal audit and oversight services (DP/1999/23);

2. Take note of the response of the United Nations Development Programme to the report of the Joint Inspection Unit (JIU/REP/98/2-A/53/171);

3. Express support for the continued strengthening of the internal audit and oversight resources of the United Nations Development Programme.